

SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORP

Form 6-K

September 15, 2014

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

Form 6-K

**REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16
UNDER THE SECURITIES EXCHANGE ACT OF 1934**

For the month of September, 2014

Commission File Number: 001-31994

Semiconductor Manufacturing International Corporation

(Translation of registrant's name into English)

18 Zhangjiang Road

Pudong New Area, Shanghai 201203

People's Republic of China

(Address of principal executive office)

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Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

Form 20-F Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934:

Yes No

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): n/a

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2014 Interim Report

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CAUTIONARY STATEMENT FOR PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This interim report contains, in addition to historical information, forward-looking statements within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on SMIC's current assumptions, expectations and projections about future events. SMIC uses words like believe, anticipate, intend, estimate, expect, project and similar expressions to identify forward looking statements, although not all forward-looking statements contain these words. These forward-looking statements are necessarily estimates reflecting the best judgment of SMIC's senior management and involve significant risks, both known and unknown, uncertainties and other factors that may cause SMIC's actual performance, financial condition or results of operations to be materially different from those suggested by the forward-looking statements including, among others, risks associated with cyclical and market conditions in the semiconductor industry, intense competition, timely wafer acceptance by SMIC's customers, timely introduction of new technologies, SMIC's ability to ramp new products into volume, supply and demand for semiconductor foundry services, industry overcapacity, shortages in equipment, components and raw materials, availability of manufacturing capacity, financial stability in end markets and intensive intellectual property litigation in high tech industry.

In addition to the information contained in this interim report, you should also consider the information contained in our other filings with the SEC, including our annual report on Form 20-F filed with the SEC on April 14, 2014, especially in the Risk Factors section and such other documents that we may file with the SEC or SEHK from time to time, including on Form 6-K. Other unknown or unpredictable factors also could have material adverse effects on our future results, performance or achievements. In light of these risks, uncertainties, assumptions and factors, the forward-looking events discussed in this interim report may not occur. You are cautioned not to place undue reliance on these

forward-looking statements, which speak only as of the date stated or, if no date is stated, as of the date of this interim report.

Except as required by law, SMIC undertakes no obligation and does not intend to update any forward-looking statement, whether as a result of new information, future events or otherwise.

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SMIC

ADDITIONAL INFORMATION

References in this interim report to:

- 2014 AGM are to the Company's annual general meeting held on June 27, 2014;
- Board are to the board of directors of the Company;
- China or PRC are to the People's Republic of China, excluding for the purpose of this interim report, Hong Kong, Macau and Taiwan;
- Company or SMIC are to Semiconductor Manufacturing International Corporation;
- EUR are to Euros;
- Group are to the Company and its subsidiaries;
- HK\$ are to Hong Kong dollars;
- Hong Kong Stock Exchange Listing Rules are to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended from time to time;
- IFRS are to International Financial Reporting Standards as issued by the International Accounting Standards Board;

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- JPY are to Japanese Yen;
- NYSE or New York Stock Exchange are to the New York Stock Exchange, Inc.;
- Ordinary Share(s) are to the ordinary share(s) of US\$0.0004 each in the share capital of the Company;
- RMB are to Renminbi;
- SEC are to the U.S. Securities and Exchange Commission;
- SEHK , HKSE or Hong Kong Stock Exchange are to The Stock Exchange of Hong Kong Limited;
- US\$ or USD are to U.S. dollars;
- U.S. GAAP are to the generally accepted accounting principles in the United States.

All references in this interim report to silicon wafer quantities are to 8-inch wafer equivalents, unless otherwise specified. Conversion of quantities of 12-inch wafers to 8-inch wafer equivalents is achieved by multiplying the number of 12-inch wafers by 2.25. When we refer to the capacity of wafer fabrication facilities, we are referring to the installed capacity based on specifications established by the manufacturers of the equipment used in those facilities. References to key process technology nodes, such as 0.35 micron, 0.25 micron, 0.18 micron, 0.15 micron, 0.13 micron, 90 nanometer, 65 nanometer and 45 nanometer include the stated resolution of the process technology, as well as intermediate resolutions down to but not including the next key process technology node of finer resolution. For example, when we state 0.25 micron process technology, that also includes 0.22 micron, 0.21 micron, 0.20 micron and 0.19 micron technologies and 0.18 micron process technology also includes 0.17 micron and 0.16 micron technologies. The financial information presented in this interim report has been prepared in accordance with IFRS. The financial information presented in the annual reports prior to 2011 was prepared in accordance with U.S. GAAP.

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CORPORATE INFORMATION

Registered name	Semiconductor Manufacturing International Corporation
Chinese name	*
Registered office	PO Box 309 Ugland House Grand Cayman KY1-1104 Cayman Islands
Head office and place of business in PRC	18 Zhangjiang Road Pudong New Area Shanghai 201203 PRC
Place of business in Hong Kong	Suite 3003 30th Floor No. 9 Queen's Road Central Hong Kong
Website	http://www.smics.com
Company secretary	Gareth Kung
Authorized representatives	Zhang Wenyi Lawrence Juen-Yee Lau
Places of listing	The Stock Exchange of Hong Kong Limited (HKSE) New York Stock Exchange (NYSE)
Stock code	981 (HKSE) SMI (NYSE)

* For identification purposes only

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LETTER TO SHAREHOLDERS

DEAR SHAREHOLDERS,

We are pleased to report that SMIC has registered profit for nine quarters in a row, achieving record-high revenue (excluding contributions from Wuhan Xinxin) for the second quarter of 2014 with the highest gross profit margin since 2005. During the second quarter, revenue from PRC customers exceeded revenue from other regions for the first time in SMIC's history, as we continued to capture growth opportunities by leveraging our unique position in China. Our 8-inch facilities are operating at full capacity; however, we have secured some second-hand 8-inch equipment and will begin to expand our 8-inch capacity in Shenzhen to meet the future demand for differentiated technologies from global and domestic customers. Meanwhile, to responsively match our customers' demand for 28nm, we will convert and upgrade part of our 40nm capacity in Shanghai for 28nm capacity readiness by the end of 2014.

Over the past six months, our Company has made continuous progress in the research and development of advanced processes; we have begun 28nm customer tape-out and in the second quarter of 2014, we reached an agreement with Qualcomm for close cooperation in 28nm process technology and wafer fabrication. These developments represent a significant milestone of SMIC. SMIC has further proved its strengths and commitment to meet customers' requirements according to their product features and provide the advanced node technologies required. The Company also achieved fruitful results in complementary cooperation with other leading players in the semiconductor industry chain. In February 2014, SMIC entered into an agreement with Jiangsu Changjiang Electronics Technology Co., Ltd in respect to the establishment of a majority-owned subsidiary for the 12-inch bumping foundry service and ancillary testing capability in Jiangyin, aiming to provide foreign and domestic customers IC design in China with one-stop production services offering premium quality, efficiency and convenience.

To fund the expansion of our 8-inch and 12-inch manufacturing facilities, the Company successfully completed another financing exercise in the capital market on 4 June with proceeds of US\$296 million. Together with the capital commitment provided by Datang and CIC, an aggregate of US\$396 million has been raised. The financing exercise was received with enthusiastic market response and active participation of investors as total subscription significantly exceeded the Company's original target, reflecting market recognition of and confidence in the track records of the Company's management team and its development goals for the future. I would like to thank in particular our major shareholders including Datang, CIC and SIIC for their active participation and great support. The Company will continue to enhance its effort in the forthcoming years, with the goal of delivering good operating performance and return on investment.

To accelerate the development of the semiconductor and related industries, the PRC government has promulgated the Outline on promoting the development of semiconductor and related industries (). As the largest and most advanced semiconductor foundry in China, SMIC benefit from the overall expansion of semiconductor and related industries driven by such policy.

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In addition, the Company continued to actively fulfill its social responsibility during the first half of 2014. SMIC has donated an additional RMB2 million (including staff donation) to fund liver transplants for impoverished children at Renji Hospital in Shanghai in May 2014, taking the accumulated donation from SMIC to RMB4 million. SMIC plans to support such charitable programs in the future.

All in all, we are making preparations in terms of capacity and technology for the many exciting new opportunities. We continue to emphasize the priority of sustained profitability and carefully planned growth, and we would like to reiterate our intention to diligently and carefully execute our business plan with the interests of our shareholders in mind. We would like to again express our sincere gratitude to all of our shareholders, customers, suppliers, and employees for their continued interest and support for the development of SMIC.

Zhang Wenyi

Chairman of the Board and Executive Director

Shanghai, China

August 28, 2014

Tzu-Yin Chiu

Chief Executive Officer and Executive Director

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Board of Directors (the Board) of Semiconductor Manufacturing International Corporation (the Company) would like to announce the unaudited interim results of operations of the Company and its subsidiaries for the six months ended June 30, 2014, and would like to express its gratitude to the shareholders and its staff for their support for the Company.

SALES

Sales decreased by 7.7% from US\$1,042.9 million for the six months ended June 30, 2013 to US\$962.4 million for the six months ended June 30, 2014, primarily because there had been no wafer shipments from Wuhan Xinxin Semiconductor Manufacturing Corporation (Wuhan Xinxin) since the first quarter of 2014. The number of wafer shipments decreased by 6.7% from 1,319,427 8-inch wafer equivalents for the six months ended June 30, 2013 to 1,230,385 8-inch wafer equivalents for the six months ended June 30, 2014.

COST OF SALES AND GROSS PROFIT

Cost of sales decreased by 10.6% from US\$809.4 million for the six months ended June 30, 2013 to US\$723.3 million for the six months ended June 30, 2014.

The Company had a gross profit of US\$239.2 million for the six months ended June 30, 2014 compared to a gross profit of US\$233.5 million for the six months ended June 30, 2013, representing an increase of 2.4%. Gross margin increased to 24.9% for the six months ended June 30, 2014 from 22.4% for the six months ended June 30, 2013. The increase in gross margin was primarily because 1) there were no wafer shipments from Wuhan Xinxin which had lower gross margin since the first quarter of 2014, and 2) of improved fab efficiency in the first half of 2014.

PROFIT FOR THE PERIOD FROM OPERATING

Profit from operations decreased from US\$130.5 million for the six months ended June 30, 2013 to US\$87.8 million for the six months ended June 30, 2014 primarily due to 1) the gain arising from the partial disposal of the living quarters in Shanghai in the first half of 2013 and 2) the gain arising from the disposal of the Company's total ownership interest in SMIC (Wuhan) Development Corporation (WHDM) which was mainly engaged in the construction, operation and management of the Company's living quarters and schools in Wuhan in the first half of 2013.

Research and development expenses increased by 32.9% from US\$61.5 million for the six months ended June 30, 2013 to US\$81.7 million for the six months ended June 30, 2014. The increase was mainly due to an increase in R&D activities.

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General and administrative expenses decreased by 23.6% from US\$76.8 million for the six months ended June 30, 2013 to US\$58.7 million for the six months ended June 30, 2014. The decrease was primarily due to a decrease in accrued employee bonus in the first half of 2014.

Sales and marketing expenses increased by 3.9% from US\$18.0 million for the six months ended June 30, 2013 to US\$18.7 million for the six months ended June 30, 2014.

Other operating income were US\$7.8 million and US\$53.3 million for the six months ended June 30, 2014 and 2013, respectively, and the decrease was due to 1) the gains arising from the partial disposal of the Company's living quarters in Shanghai in the first half of 2013 and 2) the gains arising from the disposal of the Company's total ownership interest in WHDM which was mainly engaged in the construction, operation and management of the Company's living quarters and schools in Wuhan in the first half of 2013.

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As a result, the Company's profit from operations decreased to US\$87.8 million for the six months ended June 30, 2014 from US\$130.5 million for the six months ended June 30, 2013.

PROFIT FOR THE PERIOD

Due to the factors described above, the Company had a profit attributable to holders of Ordinary Shares of US\$76.1 million for the six months ended June 30, 2014 compared to US\$115.8 million for the six months ended June 30, 2013.

FUNDING SOURCES FOR MATERIAL CAPITAL EXPENDITURE IN THE CURRENT YEAR

In 2014, the Company plans to spend approximately US\$1.1 billion in capital expenditures for foundry operations which are subject to adjustment based on market conditions. The capital expenditures are mainly for 1) Semiconductor Manufacturing North China (Beijing) Corporation (SMNC), the Company's majority owned subsidiary in Beijing, which is 55% funded by the Company and 45% funded by other shareholders of the entity, 2) the acquisition of used equipment for the Company's Shenzhen 8-inch fab, 3) the product-mix change including conversion from 40/45nm to 28nm in the Company's Shanghai 12-inch fab, and 4) the expansion of capacity in our Tianjin 8-inch fab from 39K to 42K.

In addition, the Company budgeted approximately US\$110 million in 2014 as capital expenditures for non-foundry operations. This is mainly for the construction of living quarters for employees as part of the Company's employee retention program. The Company plans to rent out or sell some of these living units to employees in the future.

The primary sources of capital resources and liquidity include cash generated from operations, bank borrowings and debt or equity issuances and other forms of financing.

LIQUIDITY AND CAPITAL RESOURCES

For the six months ended June 30, 2014, the Company incurred capital expenditures of US\$250.8 million compared to US\$486.5 million for the six months ended June 30, 2013. The Company has financed capital expenditures substantially with cash flows generated from operating and financing activities.

The Company had US\$573.3 million in cash and cash equivalent as of June 30, 2014. These cash and cash equivalent are held in the form of United States Dollars, Japanese Yen, Euro, and Chinese Renminbi. The net cash from operating activities increased by 6.0% from US\$263.0 million for the six months ended June 30, 2013 to US\$278.7 million for the six months ended June 30, 2014.

Net cash used in investing activities was US\$355.3 million for the six months ended June 30, 2014, primarily attributable to 1) purchases of plant and equipment for the fabs in Shanghai and Beijing, and 2) the net result of proceeds from and payment for short-term investments carried at fair value through profit or loss. For the six months ended June 30, 2013, net cash used in investing activities was US\$325.2 million primarily attributable to purchases of plant and equipment for the fabs in Shanghai and Beijing.

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The Company's net cash generated from (used in) financing activities were US\$188.8 million and US\$(33.3) million for the six months ended June 30, 2014 and 2013, respectively. They were primarily 1) the net result of proceeds from new bank borrowings and repayments of bank borrowings and 2) net proceeds from the issue of the convertible bonds and net proceeds from the issue of new Ordinary Shares in the first half of 2014.

As of June 30, 2014, the Company's outstanding long-term liabilities primarily consisted of US\$592.8 million in secured bank loans, US\$50.5 million in unsecured bank loans and US\$352.3 million in convertible bonds. Of which, US\$212.9 million was classified as the current portion of long-term loans. The long-term loans are repayable in installments which will commence in September 2014 and will mature in February 2018.

2012 USD Loan (SMIC Shanghai)

In March 2012, Semiconductor Manufacturing International (Shanghai) Corporation (SMIS) entered into a loan facility in the aggregate principal amount of US\$268 million with a consortium of international and Chinese banks. This three-year bank facility was used to finance the working capital for SMIS' 8-inch fab. The facility was secured by the manufacturing equipment located in the SMIS' 8-inch fabs, buildings and land use right of SMIS. As of June 30, 2014, SMIS had drawn down US\$268 million and repaid US\$134 million on this loan facility. The outstanding balance of US\$134 million is repayable by March 2015. The interest rate on this loan facility ranged from 3.64% to 3.87% for the six months ended June 30, 2014.

SMIS was in compliance with the related financial covenants as of June 30, 2014.

2013 USD Loan (SMIC Shanghai)

In August 2013, SMIS entered into a loan facility in the aggregate principal amount of US\$470 million with a syndicate of financial institutions based in the PRC. This seven-year bank facility was used to finance the planned expansion for SMIS' 12-inch fab. The facility was secured by the manufacturing equipment located in the 12-inch fabs and buildings of SMIS. As of June 30, 2014, SMIS had drawn down US\$260 million. The outstanding balance of US\$260 million is repayable from August 2015 to February 2018. The interest rate on this loan facility ranged from 4.33% to 4.89% for the six months ended June 30, 2014.

SMIS was in compliance with the related financial covenants as of June 30, 2014.

2012 USD Loan (SMIC Beijing)

In March 2012, Semiconductor Manufacturing International (Beijing) Corporation (SMIB) entered into the Beijing USD syndicate loan, a seven-year loan facility in the aggregate principal amount of US\$600 million, with a syndicate of financial institutions based in the PRC. This

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seven-year bank facility was used to expand the capacity of SMIB's 12 inch fabs. The facility was secured by the manufacturing equipment owned by the SMIB and Semiconductor Manufacturing International (Tianjin) Corporation (SMIT) fabs, and the 100% equity of SMIB and SMIT. On September 26, 2013, SMIB and the syndicate amended the loan facility amount to US\$260 million. As of June 30, 2014, SMIB had drawn down US\$260 million and repaid US\$61.2 million in respect of this loan facility. The outstanding balance of US\$198.8 million is repayable by September 2017. The interest rate on this loan facility ranged from 5.83% to 5.88% for the six months ended June 30, 2014.

SMIB was in compliance with the related financial covenants as of June 30, 2014.

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2013 EXIM USD Loan (SMIC Beijing)

In June 2013, SMIB entered into a new USD Loan, a twenty-six-month working capital loan facility in the principal amount of US\$60 million with The Export-Import Bank of China, which was unsecured. This twenty- six-month bank facility was used for working capital purposes. As of June 30, 2014, SMIB had drawn down US\$40 million on this loan facility. The principal amount is repayable in August 2015. The interest rate on this loan facility ranged from 3.33% to 3.35% for the six months ended June 30, 2014.

2013 China Investment Development Corporation (CIDC) Entrusted Loan (SMIC Beijing)

In June 2013, SMIB entered into a new RMB Loan, a two-year working capital entrusted loan facility in the principal amount of RMB70 million (approximately US\$11.2 million) with CIDC through China CITIC Bank, which was unsecured. This two-year entrusted loan facility was used for working capital purposes. As of June 30, 2014, SMIB had drawn down RMB70 million (approximately US\$11.2 million) and repaid RMB4.5 million (approximately US\$0.7 million) on this loan facility. The outstanding balance of RMB65.5 million (approximately US\$10.5 million) is repayable in June 2015. The interest rate on this loan facility was 12% for the six months ended June 30, 2014, which was set in accordance with the living quarter investment & co-development agreement entered into with CIDC and Zhongxin Xiecheng Investment (Beijing) Co., Ltd.

Short-term Credit Agreements

As of June 30, 2014, the Company had 21 short-term credit agreements that provided total credit facilities up to US\$922.4 million on a revolving credit basis. As of June 30, 2014, the Company had drawn down US\$152.4 million under these credit agreements. The outstanding borrowings under these credit agreements were unsecured, except for US\$20.0 million, which was secured by time deposits of US\$18.8 million. The interest rate on this loan facility ranged from 1.98% to 3.78% for the six months ended June 30, 2014.

In May 2012, SMIS entered into a four-year strategic framework credit facility in the aggregate amount of RMB5 billion with China Development Bank. The 2013 USD Loan (SMIC Shanghai) constituted part of this strategic framework credit facility.

COMMITMENTS

As of June 30, 2014, the Company had commitments of US\$137.8 million for facilities construction obligations in Beijing, Tianjin, Shanghai and Shenzhen, US\$199.0 million to purchase machinery and equipment mainly for the Beijing, Tianjin, Shanghai and Shenzhen fabs and US\$23.2 million to purchase intangible assets.

DEBT TO EQUITY RATIO

As of June 30, 2014, the Company's debt to equity ratio was approximately 39.7% which was calculated by dividing the sum of the short-term and long-term borrowings and convertible bonds by total shareholders' equity.

FOREIGN EXCHANGE RATE FLUCTUATION RISK

The Company's revenue, expense, and capital expenditures are primarily transacted in U.S. dollars. The Company also enters into transactions in other currencies. The Company is primarily exposed to changes in exchange rates for the Euro, Japanese Yen, and RMB against the US dollar.

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To minimize these risks, the Company purchases foreign-currency forward exchange contracts with contract terms normally lasting less than twelve months to protect against the adverse effect that exchange rate fluctuations may have on foreign-currency denominated transactions. These forward exchange contracts are principally denominated in RMB, Japanese Yen or Euro against the US dollar and do not qualify for hedge accounting in accordance with IFRS.

EMPLOYEES EQUITY INCENTIVE PLAN

Save as disclosed in this interim report, there is no material change to the information disclosed in the 2013 annual report of the Company in relation to the number and remuneration of employees, remuneration policies, bonus and share option schemes of employees.

PROSPECTS AND FUTURE PLANS

The Company reached a quarterly record high in revenue in the second quarter when excluding wafer shipments from Wuhan Xinxin, and improved on its gross margin. The Company will continue its strategic execution to capture growth opportunities via technology advancement and value-added differentiation, while focusing on sustained profitability.

With regard to SMIC's future plans, demand for the Company's differentiated technology and advanced 28nm process are key growth drivers for its business.

Demand for the Company's differentiated applications continues to be strong, especially in the areas of power management integrated circuit (PMIC), CMOS image sensors (CIS), and EEPROM. Revenue from the Company's differentiated applications, specifically PMIC, CIS, and EEPROM, account for around one-third of the Company's revenue; meanwhile growth has been constrained by limited capacity growth this year. At the same time, the Company continues to expand its differentiated portfolio offerings, which also include MEMS, fingerprint IC technology, back-side illumination CIS, embedded-EEPROM, embedded-Flash, and others.

In response to the strong capacity demand, the Company continues to search and evaluate all opportunities to expand its 8-inch capacity. The Company plans to install 10,000 wafers per month capacity in its Shenzhen 8-inch fab by the end of this year.

In terms of advanced capacity, the Company plans to convert 6,000 wafers per month of its existing 40nm capacity for 28nm readiness in its Shanghai 12-inch fab; and install 1,000 wafers per month capacity in SMNC by the end of 2014.

The Company continues to emphasize the priority of sustained profitability and carefully planned growth. Furthermore, the Company has confidence in its strategy to capture growth opportunities in China and stay committed to sustainable profitability and building value for all stakeholders.

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ISSUE OF US\$86.8 MILLION ZERO COUPON CONVERTIBLE PRE-EMPTIVE BONDS DUE 2018

On December 18, 2013, the Company entered into a subscription agreement (Datang Original Pre-emptive Bonds Subscription Agreement) with Datang Holdings (Hongkong) Investment Company Limited (Datang), a substantial shareholder of the Company. Pursuant to the Datang Original Pre-emptive Bonds Subscription Agreement, the Company conditionally agreed to issue and Datang conditionally agreed to subscribe for the zero coupon convertible bonds due 2018 in an aggregate principal amount of US\$54,600,000 (Datang Original Pre-emptive Bonds) upon the exercise of the pre-emptive rights as specified in the share purchase agreement (2008 Datang Share Purchase Agreement) dated November 6, 2008 entered into between the Company and Datang Telecom Technology & Industry Holdings Co., Ltd. (Datang Telecom) which holds 100% equity interests of Datang. The Datang Original Pre-emptive Bonds are convertible into 531,481,129 Ordinary Shares, assuming full conversion of the Datang Original Pre-emptive Bonds at the initial conversion price of HK\$0.7965 per Ordinary Share (Conversion Price) (which represented a premium of approximately 35.00% over the closing price of HK\$0.59 per Ordinary Share as quoted on the Hong Kong Stock Exchange on October 24 2013, being the date on which the terms of the issue of the Original Bonds (as defined below) were fixed).

On December 18, 2013, the Company also entered into a subscription agreement (Country Hill Original Pre-emptive Bonds Subscription Agreement) with Country Hill Limited (Country Hill), a substantial shareholder of the Company. Pursuant to the Country Hill Original Pre-emptive Bonds Subscription Agreement, the Company conditionally agreed to issue and Country Hill conditionally agreed to subscribe for the zero coupon convertible bonds due 2018 in an aggregate principal amount of US\$32,200,000 (Country Hill Original Pre-emptive Bonds) upon the exercise of the pre-emptive rights by Country Hill pursuant to the share subscription agreement (2011 Country Hill Share Subscription Agreement) dated April 18, 2011 entered into between the Company and Country Hill. The Country Hill Original Pre-emptive Bonds are convertible into 313,437,589 Ordinary Shares (assuming full conversion of the Country Hill Original Pre-emptive Bonds at the initial Conversion Price of HK\$0.7965 per Ordinary Share).

As each of Datang and Country Hill is a substantial shareholder of the Company, the execution of the Datang Original Pre-emptive Bonds Subscription Agreement and the Country Hill Original Pre-emptive Bonds Subscription Agreement as well as the transactions contemplated thereunder (including the issue of the Datang Original Pre-emptive Bonds and the Country Hill Original Pre-emptive Bonds (collectively, the Original Pre-emptive Bonds) and the allotment and issue of any Ordinary Shares on conversion of any Original Pre-emptive Bonds) constituted non-exempt connected transactions of the Company under Chapter 14A of the Hong Kong Stock Exchange Listing Rules, and were subsequently approved by the independent shareholders of the Company at the extraordinary general meeting of the Company held on February 17, 2014 (the EGM).

The Original Pre-emptive Bonds are non-interest bearing and will mature on November 7, 2018. The Company considers that the issue of the Original Pre-emptive Bonds has strengthened the relationship between Datang, Country Hill and the Company and has provided the Company with an additional source of funding. The net proceeds (net of fees and expenses) from the issue of the Original Pre-emptive Bonds were approximately US\$86.8 million which would be used for the Company's capital expenditures in capacity expansion associated with 12-inch manufacturing facilities. The completion of the issue of the Original Pre-emptive Bonds took place on May 29, 2014.

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The Original Pre-emptive Bonds have been consolidated and from the date of their issue have formed a single series with the US\$200 million zero coupon convertible bonds issued by the Company on November 7, 2013 (the Original Bonds). The Ordinary Shares on conversion of any Original Pre-emptive Bonds will be allotted and issued pursuant to the specific mandate granted by the independent shareholders of the Company to the Directors at the EGM and will rank pari passu in all respects with the Ordinary Shares then in issue on the relevant conversation date.

ISSUE OF 2,590,000,000 NEW ORDINARY SHARES

On June 4, 2014, the Company entered into a placing and subscription agreement (the Placing and Subscription Agreement) with J.P. Morgan Securities (Asia Pacific) Limited and Deutsche Bank AG, Hong Kong Branch (the Joint Placing Agents) and Datang, pursuant to which Datang agreed to appoint the Joint Placing Agents, and each of the Joint Placing Agents has agreed, severally and not jointly, to act as agent for Datang, to purchase or procure no less than six purchasers to purchase 2,590,000,000 Ordinary Shares held by Datang (Sale Share(s)) at the price of HK\$0.60 per Sale Share (the Placing Price) (the Top-up Placing). The Placing Price represented a discount of approximately 4.76% to the closing price of HK\$0.63 per Ordinary Share as quoted on the Hong Kong Stock Exchange on June 4, 2014, being the date on which the terms of the Placing and Subscription Agreement were fixed.

Following the completion of the Top-up Placing on June 9, 2014, Datang applied to subscribe for 2,590,000,000 new Ordinary Shares (the Subscription Share(s)) at the price of HK\$0.60 per Subscription Share (which was the same as the Placing Price) according to the Placing and Subscription Agreement (the Top-up Subscription). The Subscription Shares were allotted and issued by the Company to Datang on June 12, 2014 pursuant to the general mandate granted by the shareholders of the Company to the Directors at the annual general meeting of the Company held on June 13, 2013 (2013 General Mandate) and ranked pari passu in all respects with the existing Ordinary Shares in issue.

The Company is of the view that the Top-up Placing and the Top-up Subscription represent a good opportunity for the Company to broaden its shareholder base. The net subscription monies payable by Datang to the Company were approximately HK\$0.59 per Subscription Share after the deduction of the relevant expenses and the net proceeds (net of fees, commissions and expenses) from the issue of the Subscription Shares were approximately US\$197.2 million which would be mainly used for the Company's capital expenditures in capacity expansion associated with 8-inch and 12-inch manufacturing facilities and for general corporate purposes.

ISSUE OF US\$95 MILLION ZERO COUPON CONVERTIBLE BONDS DUE 2018

On June 4, 2014, the Company entered into a subscription agreement with J.P. Morgan Securities Plc and Deutsche Bank AG, Hong Kong Branch (collectively, the Joint Managers) in respect of the issue of US\$95 million zero coupon convertible bonds due 2018 (the Further Bonds), pursuant to which each of the Joint Managers agreed to subscribe and pay for, or to procure subscribers to subscribe and pay for, the Further Bonds to be issued by the Company in an aggregate principal amount of US\$95 million. The issue price of the Further Bonds is 101.5% of the aggregate principal amount. Assuming full conversion of the Further Bonds at the initial Conversion Price of HK\$0.7965 per Ordinary Share, the Further Bonds will be convertible into 924,738,230 Ordinary Shares which will be allotted and issued pursuant to the 2013 General Mandate and will rank pari passu in all respects with the Ordinary Shares then in issue on the relevant conversation date. The issue of the Further Bonds was completed on June 24, 2014.

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The Further Bonds are non-interest bearing and will mature on November 7, 2018. The Company considers the issue of the Further Bonds as a good opportunity for the Company to further broaden its shareholder base. The net proceeds (net of fees, commissions and expenses) from the issue of the Further Bonds were approximately US\$94.2 million which would be mainly used for the Company's capital expenditures in capacity expansion associated with 8-inch and 12-inch manufacturing facilities and for general corporate purposes.

The Further Bonds have been consolidated and have formed a single series with the Original Bonds and the Original Pre-emptive Bonds from the date of their issue.

PROPOSED ISSUE OF US\$22.2 MILLION ZERO COUPON CONVERTIBLE PRE-EMPTIVE BONDS DUE 2018 AND 938,111,417 NEW ORDINARY SHARES

On August 22, 2014, the Company entered into a subscription agreement (Datang Further Pre-emptive Bonds Subscription Agreement) with Datang, pursuant to which the Company has conditionally agreed to issue and Datang has conditionally agreed to subscribe for the zero coupon convertible bonds due 2018 in an aggregate principal amount of US\$22,200,000 (Datang Further Pre-emptive Bonds) for a total cash consideration of US\$22,533,000 upon the exercise of Datang's pre-emptive rights as specified in the 2008 Datang Share Purchase Agreement. The issue price of the Datang Further Pre-emptive Bonds is 101.5% of the aggregate principal amount. The Datang Further Pre-emptive Bonds are convertible into 216,096,723 Ordinary Shares, assuming full conversion of the Datang Further Pre-emptive Bonds at the initial Conversion Price of HK\$0.7965 per Ordinary Share.

On August 22, 2014, the Company also entered into a subscription agreement with each of Datang and Country Hill (2014 Datang Share Subscription Agreement and 2014 Country Hill Share Subscription Agreement, respectively) in relation to the proposed subscription of 669,468,952 Ordinary Shares by Datang upon the exercise of Datang's pre-emptive rights pursuant to the 2008 Datang Share Purchase Agreement and 268,642,465 Ordinary Shares by Country Hill upon the exercise of Country Hill's pre-emptive rights pursuant to the 2011 Country Hill Share Subscription Agreement at the price of HK\$0.60 per Ordinary Share (which is the same as the Placing Price). The total consideration payable by Datang under the 2014 Datang Share Subscription Agreement amounts to HK\$401,681,371.20, and the total consideration payable by Country Hill under the 2014 Country Hill Share Subscription Agreement amounts to HK\$161,185,479.

As each of Datang and Country Hill is a substantial shareholder of the Company and thus a connected person of the Company, the execution of the Datang Further Pre-emptive Bonds Subscription Agreement, the 2014 Datang Share Subscription Agreement and the 2014 Country Hill Share Subscription Agreement as well as the transactions contemplated thereunder (including the issue of the Datang Further Pre-emptive Bonds, the allotment and issue of any Ordinary Shares on conversion of any Datang Further Pre-emptive Bonds, the allotment and issue of 669,468,952 Ordinary Shares to Datang and the allotment and issue of 268,642,465 Ordinary Shares to Country Hill) constitute non-exempt connected transactions of the Company under Chapter 14A of the Hong Kong Stock Exchange Listing Rules, and are subject to the approval of the independent shareholders of the Company at the extraordinary general meeting of the Company so convened.

The Datang Further Pre-emptive Bonds are non-interest bearing and will mature on November 7, 2018. The Company considers that the proposed issue of the Datang Further Pre-emptive Bonds and the proposed issue of a total of 938,111,417 new Ordinary Shares to Datang and Country Hill will further strengthen the relationship between Datang, Country Hill and the Company and has provided the Company with an additional source of funding for the Company's needs. The net proceeds (net of fees and expenses) from the issue of

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the Datang Further Pre-emptive Bonds and the issue of a total of 938,111,417 new Ordinary Shares to Datang and Country Hill are approximately US\$22.4 million and HK\$562.5 million respectively, both of which will be used for the Company's capital expenditures in capacity expansion associated with 8-inch and 12-inch manufacturing facilities and general corporate purposes.

The Datang Further Pre-emptive Bonds will be consolidated and from the date of their issue form a single series with the Original Bonds. The Ordinary Shares on conversion of any Datang Further Pre-emptive Bonds and a total of 938,111,417 Ordinary Shares to be subscribed by Datang and Country Hill will be allotted and issued pursuant to the specific mandates granted by the independent shareholders of the Company to the Directors at the extraordinary general meeting of the Company so convened and will rank pari passu in all respects with the Ordinary Shares then in issue on the relevant issue date.

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CORPORATE GOVERNANCE REPORT

The Company is committed to remaining an exemplary corporate citizen and maintaining a high standard of corporate governance in order to protect the interests of its shareholders.

CORPORATE GOVERNANCE PRACTICES

The Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Hong Kong Stock Exchange Listing Rules contains code provisions (the "Code Provisions") which an issuer, such as the Company, is expected to comply with or advise as to reasons for deviations from and recommends best practices which an issuer is encouraged to implement (the "Recommended Practices"). The Company has adopted a set of Corporate Governance Policy (the "CG Policy") since January 25, 2005 as its own code of corporate governance, which is amended from time to time to comply with the CG Code. The CG Policy, a copy of which can be obtained on the Company's website at www.smics.com under "Investor Relations > Corporate Governance > Policy and Procedures", incorporates all of the Code Provisions of the CG Code except for Code Provision E.1.3, which relates to the notice period of general meetings of the Company, and many of the Recommended Practices. In addition, the Company has adopted or put in place various policies, procedures, and practices in compliance with the provisions of the CG Policy.

During the six months ended June 30, 2014, the Company was in compliance with all the Code Provisions set out in the CG Code except as explained below:

Code Provision A.4.2 of the CG Code requires that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after appointment. According to Article 126 of the Articles of Association of the Company, any Director appointed by the Board to fill a casual vacancy or as an addition to the existing Directors shall hold office only until the next following annual general meeting of the Company after appointment and shall then be eligible for re-election at that meeting. As such, Mr. Sean Maloney, who was appointed as an independent non-executive Director by the Directors on June 15, 2013 to fill the casual vacancy arising from the retirement of Mr. Tsuyoshi Kawanishi on June 13, 2013, and Mr. William Tudor Brown, who was appointed as an independent non-executive Director by the Directors on August 8, 2013 as an additional Director to the Board, retired and, being eligible, were re-elected at the 2014 AGM held on June 27, 2014 rather than the extraordinary general meeting of the Company held on February 17, 2014 (the "EGM") pursuant to the Articles of Association of the Company.

Code Provision A.6.7 of the CG Code requires that independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Mr. Sean Maloney, an independent non-executive Director, was not able to attend the EGM as he was having overseas engagements during the meeting time.

Save as the aforesaid and in the opinion of the Directors, the Company has complied with all other Code Provisions set out in the CG Code during the six months ended June 30, 2014.

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MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted an Insider Trading Compliance Program (the Insider Trading Policy) which encompasses the requirements of the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Hong Kong Stock Exchange Listing Rules (the Model Code). The Company, having made specific enquiry of all Directors, confirms that all Directors have complied with the Insider Trading Policy and the Model Code throughout the six months ended June 30, 2014. The senior management of the Company as well as all officers, directors, and employees of the Company and its subsidiaries are also required to comply with the provisions of the Insider Trading Policy.

THE BOARD

The Board has a duty to the Company's shareholders to direct and oversee the affairs of the Company in order to maximize shareholder value. The Board, acting by itself and through its various committees, actively participates in and is responsible for the determination of the overall strategy of the Company, the establishment and monitoring of the achievement of corporate goals and objectives, the oversight of the Company's financial performance and the preparation of the accounts, the establishment of corporate governance practices and policies, and the review of the Company's system of internal controls. The management of the Company is responsible for the implementation of the overall strategy of the Company and its daily operations and administration. The Board has access to the senior management of the Company to obtain information about the operation of the Company.

The Board consists of ten Directors and two alternate Directors as at the date of this interim report. Directors may be elected to hold office until the expiration of their respective term upon a resolution passed at a duly convened shareholders' meeting by holders of a majority of the Company's issued shares being entitled to vote in person or by proxy at such meeting. The Board is divided into three classes with one class of Directors eligible for re-election at each annual general meeting of the Company. Each class of Directors (including all non-executive Directors) serves a term of three years.

- Class I Directors are Mr. Zhang Wenyi, Dr. Tzu-Yin Chiu, Dr. Gao Yonggang and Mr. William Tudor Brown. All Class I Directors were re-elected at the 2014 AGM to hold office until the annual general meeting of the Company to be held in 2017.

- Class II Directors are Dr. Chen Shanzhi, Mr. Frank Meng and Mr. Lip-Bu Tan. All Class II Directors were re-elected at the annual general meeting of the Company held in 2012 to hold office until the annual general meeting of the Company to be held in 2015.

- Class III Directors are Mr. Zhou Jie, Professor Lawrence Juen-Yee Lau and Mr. Sean Maloney. Mr. Zhou and Professor Lau were re-elected at the annual general meeting of the Company held in 2013 to hold office until the annual general meeting of the Company to be held in 2016 (2016 AGM). Mr. Maloney, whose initial appointment as a Director took effect from June 15, 2013, was re-elected at the 2014 AGM to hold office until 2016 AGM.

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As of the date of this interim report, the roles of Chairman and Chief Executive Officer are segregated and such roles are performed by Mr. Zhang Wenyi and Dr. Tzu-Yin Chiu, respectively.

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The following table sets forth the names, classes and categories of the Directors as at the date of this interim report:

Name of Director	Category of Director	Class of Director
Zhang Wenyi	Chairman, Executive Director	Class I
Tzu-Yin Chiu	Chief Executive Officer and Executive Director	Class I
Gao Yonggang	Chief Financial Officer, Executive Vice President, Strategic Planning and Executive Director	Class I
William Tudor Brown	Independent Non-executive Director	Class I
Chen Shanzhi	Non-executive Director	Class II
Lip-Bu Tan	Independent Non-executive Director	Class II
Frank Meng	Independent Non-executive Director	Class II
Sean Maloney	Independent Non-executive Director	Class III
Zhou Jie	Non-executive Director	Class III
Lawrence Juen-Yee Lau	Non-executive Director	Class III
Datong Chen	Alternate Director to Lawrence Juen-Yee Lau	
Li Yonghua	Alternate Director to Chen Shanzhi	

On an annual basis, each independent non-executive Director confirms his independence to the Company, and the Company considers these Directors to be independent as such term is defined in the Hong Kong Stock Exchange Listing Rules. There are no relationships among members of the Board, including between the Chairman of the Board and the Chief Executive Officer.

The Board meets at least four times a year at approximately quarterly intervals and on such other occasions as may be required to discuss and vote upon significant issues affecting the Company. The schedule of Board meetings for a given year is planned in the preceding year. The Company Secretary assists the Chairman in preparing the agenda for the Board meetings and also assists the Board in complying with applicable laws, rules and regulations. The relevant papers for the Board meetings are dispatched to Board members in accordance with the CG Code. Directors may include matters for discussion in the agenda if the need arises. Upon the conclusion of the Board meeting, minutes are circulated to all Directors for their review and comments prior to their approval of the minutes at the following or subsequent Board meeting. Transactions in which any Directors are considered to have a conflict of interest or material interests are dealt with by physical Board meetings rather than written resolutions and the interested Directors are not counted in the quorum of such Board meetings and abstain from voting on the relevant matters.

All Directors have access to the Company Secretary, who is responsible for assisting the Board in complying with applicable procedures regarding compliance matters. Every Board member is entitled to have access to documents tabled at the Board meeting or filed into the Company's minutes book. Furthermore, the Board has established the procedures pursuant to which a Director, upon reasonable request, may seek independent professional advice at the Company's expense in order for such Director to discharge his/her duties. The Company Secretary continuously updates all Directors on the latest development of the Hong Kong Stock Exchange Listing Rules and other applicable regulatory requirements to ensure the Company's compliance with and maintenance of good corporate governance practices. Each new Director is provided with training with respect to his/her responsibilities under the Hong Kong Stock Exchange Listing Rules and other regulatory requirements and the Company's corporate governance policies and practices.

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Board Diversity Policy

The Board has adopted a Board Diversity Policy since August 8, 2013 to comply with Code Provision A.5.6 of the CG Code on board diversity which has become effective from September 1, 2013. The Nomination Committee of the Company gives consideration to that policy when identifying suitably qualified candidates to become members of the Board. Nonetheless, Board appointments are always made on merit against objective criteria, taking into account factors based on the Company's business model and specific needs from time to time, as well as the benefits of diversity on the Board, and the Board reviews the Board Diversity Policy on a regular basis to ensure its effectiveness.

Procedure regarding the Appointment of Directors

The standard procedure regarding the appointment of Directors, which was adopted by the Board on September 22, 2005, sets forth the process by which individuals are appointed as members of the Board. Under the policy, the Board considers, among other factors, (i) the skills, qualifications and experience of the nominee, including other directorships held in listed public companies in the last three years and other major appointments; (ii) the nominee's shareholding in the Company; (iii) the independence of the nominee under New York Stock Exchange and/or Hong Kong Stock Exchange listing rules; and (iv) the impact with respect to the Company's status as a foreign private issuer under the United States securities laws. The Board then decides whether to appoint such nominee to fill a casual vacancy on the Board or to add the nominee to the existing Directors and to appoint such nominee into one of the three classes of Directors as stipulated in the Articles of Association of the Company.

BOARD COMMITTEE

The Board has established the following principal committees to assist it in performing its functions. Each of these committees consists of a majority of independent non-executive Directors who have been invited to serve as members. The committees are governed by their respective charters setting out clear terms of reference.

Audit Committee

As of June 30, 2014, the Company's Audit Committee (the Audit Committee) consisted of three members, namely Mr. Lip-Bu Tan (chairman of Audit Committee), Mr. Frank Meng and Mr. Zhou Jie. None of the members of the Audit Committee has been an executive officer or employee of the Company or any of its subsidiaries. In addition to acting as an Audit Committee member, Mr. Lip-Bu Tan currently also serves on the audit committee of another publicly traded company, SINA Corporation. In general and in accordance with section 303A.07(a) of the Listed Company Manual of the New York Stock Exchange, the Board considered and determined that such simultaneous service would not impair the ability of Mr. Tan to effectively serve on the Company's Audit Committee.

The responsibilities of the Audit Committee include, among other things:

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- making recommendations to the Board concerning the appointment, reappointment, retention, evaluation, oversight and termination of the work of the Company's independent auditor;
- reviewing the experience, qualifications and performance of the senior members of the independent auditor team;
- pre-approving all non-audit services to be provided by the Company's independent auditor;

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- approving the remuneration and terms of engagement of the Company's independent auditor;

- reviewing reports from the Company's independent auditor regarding the independent auditor's internal quality-control procedures; and any material issues raised in the most recent internal or peer review of such procedures, or in any inquiry, review or investigation by governmental, professional or other regulatory authority, respecting independent audits conducted by the independent auditor, and any steps taken to deal with these issues; and (to assess the independent auditor's independence) all relationships between the Company and the independent auditor;

- pre-approving the hiring of any employee or former employee of the Company's independent auditor who was a member of the audit team during the preceding three years and the hiring of any employee or former employee of the independent auditor for senior positions regardless of whether that person was a member of the Company's audit team;

- reviewing the Company's annual and interim financial statements, earnings releases, critical accounting policies and practices used to prepare financial statements, alternative treatments of financial information, the effectiveness of the Company's disclosure controls and procedures and important trends and developments in financial reporting practices and requirements;

- reviewing the scope, planning and staffing of internal audits, the organization, responsibilities, plans, results, budget and staffing of the Company's Internal Audit Department (as defined and discussed below), the quality, adequacy and effectiveness of the Company's internal controls and any significant deficiencies or material weaknesses in the design or operation of internal controls;

- reviewing the Company's risk assessment and management policies;

- reviewing any legal matters that may have a material impact and the adequacy and effectiveness of the Company's legal and regulatory compliance procedures;

- establishing procedures for the treatment of complaints received by the Company regarding financial reporting, internal control or possible improprieties in other matters; and

- obtaining and reviewing reports from management, the Company's internal auditor and the Company's independent auditor regarding compliance with applicable legal and regulatory requirements.

The Audit Committee reports its work, findings and recommendations to the Board regularly.

The Audit Committee meets at least four times a year on a quarterly basis and on such other occasions as may be required to discuss and vote upon significant issues. The meeting schedule for a given year is planned in the preceding year. The Company Secretary assists the chairman of the Audit Committee in preparing the agenda for meetings and also assists the Audit Committee in complying with the relevant rules and regulations. The relevant papers for the Audit Committee meetings are dispatched to the Audit Committee in accordance with the CG Code. Members of the Audit Committee may include matters for discussion in the agenda if the need arises. Within a reasonable time after an Audit Committee meeting is held, minutes are circulated to the members of the Audit Committee for their comment and review prior to their approval of the minutes at the following or a subsequent Audit Committee meeting.

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At each quarterly Audit Committee meeting, the Audit Committee reviews with the Chief Financial Officer and the Company's independent auditor the financial statements for the financial period and the financial and accounting principles, policies and controls of the Company and its subsidiaries. In particular, the Committee discusses (i) the changes in accounting policies and practices, if any; (ii) the going concern assumptions; (iii) compliance with accounting standards and applicable rules and other legal requirements in relation to financial reporting; and (iv) the internal controls of the Company and the accounting and financial reporting systems. Upon the recommendation of the Audit Committee, the Board approves the financial statements.

Compensation Committee

As of June 30, 2014, the members of the Company's Compensation Committee (the "Compensation Committee") were Mr. Lip-Bu Tan (chairman of Compensation Committee), Mr. Sean Maloney and Mr. Zhou Jie. None of these members of the Compensation Committee has been an executive officer or employee of the Company or any of its subsidiaries.

The responsibilities of the Compensation Committee include, among other things:

- approving and overseeing the total compensation package for the Company's executive officers and any other officer, evaluating the performance of and determining and approving the compensation to be paid to the Company's Chief Executive Officer and reviewing the results of the Chief Executive Officer's evaluation of the performance of the Company's other executive officers;

- determining the compensation packages of executive Directors and making recommendations to the Board with respect to non-executive Directors' compensation, including equity-based compensation;

- administering and periodically reviewing and making recommendations to the Board regarding the long-term incentive compensation or equity plans made available to the Directors, employees and consultants;

- reviewing and making recommendations to the Board regarding executive compensation philosophy, strategy and principles and reviewing new and existing employment, consulting, retirement and severance agreements proposed for the Company's executive officers; and

- ensuring appropriate oversight of the Company's human resources policies and reviewing strategies established to fulfill the Company's ethical, legal, and human resources responsibilities.

The Compensation Committee reports its work, findings and recommendations to the Board periodically but no fewer than four times per year.

The Compensation Committee meets at least four times per year and on such other occasions as may be required to discuss and vote upon significant issues affecting the compensation policy of the Company. The meeting schedule for a given year is planned in the preceding year. The Company Secretary assists the chairman of the Compensation Committee in preparing the agenda for meetings and also assists the Compensation Committee in complying with the relevant rules and regulations. The relevant papers for the Compensation Committee meeting are dispatched to Compensation Committee members in accordance with the CG Code. Members of the Compensation Committee may include matters for discussion in the agenda if the need arises. Within a reasonable time after a Compensation Committee meeting is held, minutes are circulated to the members of the Compensation Committee for their comment and review prior to their approval of the minutes at the following or a subsequent Compensation Committee meeting.

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Nomination Committee

As of June 30, 2014, the Company's Nomination Committee (the "Nomination Committee") comprised Mr. Zhang Wenyi (chairman of Nomination Committee), Mr. Frank Meng and Mr. Lip-Bu Tan.

The responsibilities of the Nomination Committee include:

- reviewing the structure, size and composition (including the skills, knowledge and experience, as well as diversity of perspectives) of the Board at least annually and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- monitoring the implementation of Board Diversity Policy (including any measurable objectives and the progress in achieving those objectives), and ensuring that appropriate disclosures are made regarding board diversity in the Corporate Governance Report set out in the Company's Annual Report;
- identifying individuals suitably qualified to become Board members, consistent with criteria approved by the Board, and making recommendations to the Board on the selection of individuals nominated for directorships;
- assessing the independence of independent non-executive Directors; and
- making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman of the Board and the Chief Executive Officer.

Internal Audit Department

The Company's Internal Audit Department (the "Internal Audit Department") works with and supports the Company's management team and the Audit Committee to evaluate and contribute to the improvement of risk management, control, and governance systems. The risk-based audit plan made by the Internal Audit Department is approved by the Audit Committee. Audit results are reported by the Internal Audit Department to the Chairman of the Board, the Chief Executive Officer and the Audit Committee every quarter and throughout the year.

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Based on its annual audit plan, the Internal Audit Department audits the practices, procedures, expenditure and internal controls of the various departments in the Company. The scope of the audit includes:

- reviewing management's control to ensure the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information;
- reviewing the systems established or to be established to ensure compliance with policies, plans, procedures, laws, and regulations that could have a significant impact on operations and reports, and determining whether the Company is in compliance;
- reviewing the means of safeguarding assets and, when appropriate, verifying the existence of assets;
- appraising the economy and efficiency with which resources are employed;
- identifying significant risks, including fraud risks, to the ability of the Company to meet its business objectives, communicating them to management and ensuring that management has taken appropriate action to guard against those risks; and

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- evaluating the effectiveness of controls supporting the operations of the Company and providing recommendations as to how those controls could be improved.

In addition, the Internal Audit Department audits areas of concern identified by senior management or conduct reviews and investigations on an ad hoc basis. In conducting these audits, the Internal Audit Department has free and full access to all necessary functions, records, properties and personnel.

After completing an audit, the Internal Audit Department furnishes the Company's management team with analysis, appraisals, recommendations, counsel, and information concerning the activities reviewed. Appropriate managers of the Company are notified of any deficiencies cited by the Internal Audit Department, which follows up with the implementation of audit recommendations. In addition, the Internal Audit Department reports their findings directly to the Audit Committee on at least a quarterly basis.

The Internal Audit Department has direct access to the Board through the chairman of the Audit Committee. The Internal Audit Department may upon request meet privately with the Audit Committee, without the presence of members of the Company's management or the independent auditor.

CODE OF BUSINESS CONDUCT AND ETHICS

The Board has adopted a code of business conduct and ethics (the Code of Conduct) which provides guidance about doing business with integrity and professionalism. The Code of Conduct addresses issues including among others, fraud, conflicts of interest, corporate opportunities, protection of intellectual property, transactions in the Company's securities, use of the Company's assets, and relationships with customers and third parties. Any violation of the Code of Conduct is reported to the Company's Compliance Office, which will subsequently report such violation to the Audit Committee.

U.S. Corporate Governance Practices

Companies listed on the New York Stock Exchange, or the NYSE, must comply with certain corporate governance standards under Section 303A of the New York Stock Exchange Listed Company Manual. Because the Company's American Depositary Shares are registered with the SEC and are listed on the New York Stock Exchange, the Company is also subject to certain U.S. corporate governance requirements, including many of the provisions of the Sarbanes-Oxley Act of 2002. However, because the Company is a foreign private issuer, many of the corporate governance rules in the NYSE Listed Company Manual, or the NYSE Standards, do not apply to the Company. The Company is permitted to follow corporate governance practices in accordance with Cayman Islands law and the Hong Kong Stock Exchange Listing Rules in lieu of most of the corporate governance standards contained in the NYSE Standards.

Set forth below is a brief summary of the significant differences between the Company's corporate governance practices and the corporate governance standards applicable to U.S. domestic companies listed on the NYSE, or U.S. domestic issuers:

- The NYSE Standards require U.S. domestic issuers to have a nominating/corporate governance committee composed entirely of independent directors. We are not subject to this requirement, and we have not established a nominating/corporate governance committee. Instead, our Board has established the Nomination Committee to review the structure, size and composition (including the skills, knowledge and experience as well as diversity of perspectives of the Board) at least annually, monitor the implementation of Board Diversity Policy, make recommendations on any proposed changes to the Board

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to complement the Company's corporate strategy, identify individuals suitably qualified to become Board members consistent with criteria approved by the Board, assess the independence of independent non-executive Directors, make recommendations to the Board on the selection of individuals nominated for directorships, and make recommendations to the Board on the appointment or reappointment of Directors and succession planning for Directors, in particular the Chairman of the Board and the Chief Executive Officer. However, such nomination committee is not responsible for developing and recommending to the Board a set of corporate governance guidelines applicable to the Company and overseeing the evaluation of the Board and management.

- The NYSE Standards provide detailed tests that U.S. domestic issuers must use for determining independence of directors. While we may not specifically apply the NYSE tests, our Board assesses independence in accordance with Hong Kong Stock Exchange Listing Rules, and in the case of Audit Committee members in accordance with Rule 10A-3 under the U.S. Securities Exchange Act of 1934, as amended, and considers whether there are any relationships or circumstances which are likely to affect such director's independence from management.

- We believe that the composition of our Board and its committees and their respective duties and responsibilities are otherwise generally responsive to the relevant NYSE Standards applicable to U.S. domestic issuers. However, the charters for our Audit Committee and Compensation Committee may not address all aspects of the NYSE Standards. For example, NYSE Standards require compensation committees of U.S. domestic issuers to produce a compensation committee report annually and include such report in their annual proxy statements or annual reports on Form 10-K. We are not subject to this requirement, and we have not addressed this in our Compensation Committee charter. We disclose the amounts of compensation of our Directors on a named basis and the five highest individuals on an aggregate basis in our 2013 annual report in accordance with the requirements of the Hong Kong Stock Exchange Listing Rules.

- The NYSE Standards require that shareholders must be given the opportunity to vote on all equity compensation plans and material revisions to those plans. We comply with the requirements of Cayman Islands law and the Hong Kong Stock Exchange Listing Rules in determining whether shareholder approval is required, and we do not take into consideration the NYSE's detailed definition of what are considered material revisions.

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OTHER INFORMATION

1. DIVIDENDS

The Board did not propose to declare an interim dividend for the six months ended June 30, 2014 (six months ended June 30, 2013: Nil).

2. SHARE CAPITAL

During the six months ended June 30, 2014, the Company issued 69,800,684 and 59,752,553 Ordinary Shares as a result of the exercise of equity awards granted pursuant to the Company's 2004 stock option plan (the "2004 Stock Option Plan") and the Company's 2004 equity incentive plan (the "2004 Equity Incentive Plan"), respectively. During this period, there were no Ordinary Shares issued as a result of the exercise of equity awards granted pursuant to the Company's 2014 stock option plan (the "2014 Stock Option Plan") and the Company's 2014 equity incentive plan (the "2014 Equity Incentive Plan") which have replaced the 2004 Stock Option Plan and the 2004 Equity Incentive Plan, respectively, upon their termination.

	Number of Shares Outstanding
Outstanding Share Capital as of June 30, 2014:	
Ordinary Shares	34,831,860,338

Under the terms of the Company's 2014 Equity Incentive Plan, the Compensation Committee may grant restricted share units ("Restricted Share Units") to eligible participants. Each Restricted Share Unit represents the right to receive one Ordinary Share. Restricted Share Units granted to new employees and existing employees generally vest at a rate of 25% upon the first, second, third, and fourth anniversaries of the vesting commencement date. Upon vesting of the Restricted Share Units and subject to the terms of the Insider Trading Policy and the payment by the participants of applicable taxes, the Company will issue the relevant participants the number of Ordinary Shares underlying the awards of Restricted Share Unit.

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3. SUBSTANTIAL SHAREHOLDERS INTERESTS

Set out below are the names of the parties (not being a director or chief executive of the Company) which were interested in five percent or more of the nominal value of the share capital of the Company and the respective numbers of shares in which they were interested as of June 30, 2014 as recorded in the register kept by the Company under section 336 of the Securities and Futures Ordinance (Cap.571 of the Laws of Hong Kong) (SFO).

Name of Shareholder	Long/Short Position	Number of Ordinary Shares Held	Percentage of Ordinary Shares Held to Total Issued Share Capital of the Company	Derivatives	Total Interest	Percentage of Aggregate Interests to Total Issued Share Capital of the Company
			(Note 1)			(Note 1)
Datang Telecom Technology & Industry Holdings Co., Ltd. (DatangTelecom)	Long Position	6,116,138,341 (Note 2)	17.56%	531,481,129 (Note 3)	6,647,619,470	19.08%
China Investment Corporation (CIC)	Long Position	3,605,890,530 (Note 4)	10.35%	313,437,589 (Note 5)	3,919,328,119	11.25%

Notes:

(1) Based on 34,831,860,338 Ordinary Shares in issue as at June 30, 2014.

(2) All such Ordinary Shares are held by Datang Holdings (Hongkong) Investment Company Limited (Datang) which is a wholly- owned subsidiary of Datang Telecom.

(3) The Company issued US\$54,600,000 zero coupon convertible bonds due 2018 (Datang Original Pre-emptive Bonds) to Datang on May 29, 2014 pursuant to the subscription agreement dated December 18, 2013 entered into between the Company and Datang. The Datang Original Pre-emptive Bonds are convertible into 531,481,129 Ordinary Shares (assuming full conversion at the initial conversion price of HK\$0.7965 per Ordinary Share). In this regard, Datang and Datang Telecom are deemed to be interested in these 531,481,129 underlying shares of the Company.

(4) All such Ordinary Shares are held by Country Hill Limited (Country Hill). Country Hill is wholly-owned subsidiary of Bridge Hill Investments Limited, which is a subsidiary controlled by CIC.

(5) The Company issued US\$32,200,000 zero coupon convertible bonds due 2018 (Country Hill Original Pre-emptive Bonds) to Country Hill on May 29, 2014 pursuant to the subscription agreement dated December 18, 2013 entered into between the Company and Country Hill. The Country Hill Original

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Pre-emptive Bonds are convertible into 313,437,589 Ordinary Shares (assuming full conversion at the initial conversion price of HK\$0.7965 per Ordinary Share). In this regard, Country Hill and CIC are deemed to be interested in these 313,437,589 underlying shares of the Company.

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4. SHAREHOLDING INTERESTS OF THE DIRECTORS

As of June 30, 2014, the interests or short positions of the Directors in the shares, underlying shares and debentures of the Company (within the meaning of Part XV of the SFO), which were notified to the Company and the HKSE pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), and as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the HKSE pursuant to the Model Code were as follows:

Name of Director	Long/Short Position	Nature of Interests	Number of Ordinary Shares Held	Derivatives Options	Other	Total Interest	Percentage of Aggregate Interests to Total Issued Share Capital of the Company (Note 1)
Executive Director							
Zhang Wenyi	Long Position	Beneficial Owner		21,746,883 (Note 2)	9,320,093 (Note 3)	31,066,976	0.089%
Tzu-Yin Chiu	Long Position	Beneficial Owner	26,119,852	86,987,535 (Note 4)	18,640,186 (Note 5)	131,747,573	0.378%
Gao Yonggang	Long Position	Beneficial Owner		19,640,054 (Note 6)		19,640,054	0.056%
Non-executive Director							
Chen Shanzhi	Long Position	Beneficial Owner		3,145,319 (Note 7)		3,145,319	0.009%
Lawrence Juen-Yee Lau	Long Position	Beneficial Owner		4,492,297 (Note 8)		4,492,297	0.013%
Independent Non-executive Director							
William Tudor Brown	Long Position	Beneficial Owner		4,492,297 (Note 9)		4,492,297	0.013%
Sean Maloney	Long Position	Beneficial Owner		4,490,377 (Note 10)		4,490,377	0.013%
Frank Meng	Long Position	Beneficial Owner		4,471,244 (Note 11)		4,471,244	0.013%
Lip-Bu Tan	Long Position	Beneficial Owner		4,634,877 (Note 12)		4,634,877	0.013%

Notes:

(1) Based on 34,831,860,338 Ordinary Shares in issue as at June 30, 2014.

(2) On September 8, 2011, Mr. Zhang was granted options to purchase 21,746,883 Ordinary Shares at a price of HK\$0.455 per Ordinary Share pursuant to the 2004 Stock Option Plan. These options will expire on the earlier of September 7, 2021 or 120 days after termination of Mr. Zhang's service as a

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Director to the Board. As of June 30, 2014, none of these options have been exercised.

(3) On September 8, 2011, Mr. Zhang was granted an award of 9,320,093 Restricted Share Units (each representing the right to receive one Ordinary Share) pursuant to the 2004 Equity Incentive Plan. These Restricted Share Units, 25% of which vest on each anniversary of June 30, 2011, shall fully vest on June 30, 2015. As of June 30, 2014, 75% of Mr. Zhang's Restricted Share Units were vested, but none of these Restricted Share Units have been settled.

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- (4) On September 8, 2011, Dr. Chiu was granted options to purchase 86,987,535 Ordinary Shares at a price of HK\$0.455 per Ordinary Share pursuant to the 2004 Stock Option Plan. These options will expire on the earlier of September 7, 2021 or 120 days after termination of Dr. Chiu's service as a Director to the Board. As of June 30, 2014, none of these options have been exercised.
- (5) On September 8, 2011, Dr. Chiu was granted an award of 37,280,372 Restricted Share Units (each representing the right to receive one Ordinary Share) pursuant to the 2004 Equity Incentive Plan. These Restricted Share Units, 25% of which vest on each anniversary of August 5, 2011, shall fully vest on August 5, 2015. As of June 30, 2014, 50% of Dr. Chiu's Restricted Share Units were vested and settled, and thus 18,640,186 Ordinary Shares were issued to Dr. Chiu.
- (6) These options comprise: (a) options which were granted to Dr. Gao on May 24, 2010 to purchase 3,145,319 Ordinary Shares at a price of HK\$0.64 per Ordinary Share pursuant to the 2004 Stock Option Plan and will expire on the earlier of May 23, 2020 or 120 days after termination of Dr. Gao's service as a Director to the Board, (b) options which were granted to Dr. Gao on June 17, 2013 to purchase 13,608,249 Ordinary Shares at a price of HK\$0.624 per Ordinary Share pursuant to the 2004 Stock Option Plan and will expire on the earlier of June 16, 2023 or 120 days after termination of Dr. Gao's service as a Director to the Board, and (c) options which were granted to Dr. Gao on June 12, 2014 to purchase 2,886,486 Ordinary Shares at a price of HK\$0.64 per Ordinary Share pursuant to the 2014 Stock Option Plan and will expire on the earlier of June 11, 2024 or 120 days after termination of Dr. Gao's service as a Director to the Board. As of June 30, 2014, none of these options have been exercised.
- (7) On May 24, 2010, Dr. Chen was granted options to purchase 3,145,319 Ordinary Shares at a price of HK\$0.64 per Ordinary Share pursuant to the 2004 Stock Option Plan. These options will expire on the earlier of May 23, 2020 or 120 days after termination of each of Dr. Chen's service as a Director to the Board. As of June 30, 2014, none of these options have been exercised.
- (8) On September 6, 2013, Professor Lau was granted options to purchase 4,492,297 Ordinary Shares at a price of HK\$0.562 per Ordinary Share pursuant to the 2004 Stock Option Plan. These options will expire on the earlier of September 5, 2023 or 120 days after termination of Professor Lau's service as a Director to the Board. As of June 30, 2014, none of these options have been exercised.
- (9) On September 6, 2013, Mr. Brown was granted options to purchase 4,492,297 Ordinary Shares at a price of HK\$0.562 per Ordinary Share pursuant to the 2004 Stock Option Plan. These options will expire on the earlier of September 5, 2023 or 120 days after termination of Mr. Brown's service as a Director to the Board. As of June 30, 2014, none of these options have been exercised.
- (10) On June 17, 2013, Mr. Maloney was granted options to purchase 4,490,377 Ordinary Shares at a price of HK\$0.624 per Ordinary Share pursuant to the 2004 Stock Option Plan. These options will expire on the earlier of June 16, 2023 or 120 days after termination of Mr. Maloney's service as a Director to the Board. As of June 30, 2014, none of these options have been exercised.
- (11) On November 17, 2011, Mr. Meng was granted options to purchase 4,471,244 Ordinary Shares at a price of HK\$0.4 per share pursuant to the 2004 Stock Option Plan. These options will expire on the earlier of November 16, 2021 or 120 days after termination of Mr. Meng's service as a Director to the Board. As of June 30, 2014, none of these options have been exercised.

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(12) These options comprise (a) options granted to Mr. Tan on September 29, 2006 to purchase 500,000 Ordinary Shares at a price per share of US\$0.132 pursuant to the 2004 Stock Option Plan which fully vested on May 30, 2008 and will expire on the earlier of September 28, 2016 or 120 days after termination of Mr. Tan's service as a Director to the Board, (b) options granted to Mr. Tan on February 17, 2009 to purchase 1,000,000 Ordinary Shares at a price of HK\$0.27 per Ordinary Share pursuant to the 2004 Stock Option Plan, which will expire on the earlier of February 16, 2019 or 120 days after termination of Mr. Tan's service as a Director to the Board, and (c) options granted to Mr. Tan on February 23, 2010 to purchase 3,134,877 Ordinary Shares at a price of HK\$0.77 per Ordinary Share pursuant to the 2004 Stock Option Plan, which will expire on the earlier of February 22, 2020 or 120 days after termination of Mr. Tan's service as a Director to the Board. As of June 30, 2014, none of these options have been exercised.

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2001 STOCK OPTION PLANS

Name/Eligible Employees	Date Granted	Period during which Rights Exercisable	No. of Options Granted	Exercise Price Per Share (USD)	Options Outstanding as of 12/31/13	Options Lapsed During Period	Options Lapsed Due to Repurchase of Ordinary Shares During Period*	Options Exercised During Period	Options Cancelled During Period	Options Outstanding as of 6/30/14	Weighted Average Price of Shares immediately before Date of Exercise (USD)	Weighted Average Closing Price of Shares immediately before Date of Exercise (USD)
Service Providers	1/15/2004	1/15/2004 1/14/2014	4,100,000	\$ 0.10	29,618,335	100,000						\$ 0.14
Employees	1/15/2004	1/15/2004 1/14/2014	20,885,000	\$ 0.10	3,294,000	3,294,000						\$ 0.33
Employees	2/16/2004	2/16/2004 2/15/2014	14,948,600	\$ 0.10	3,508,200	931,100		2,577,100			\$ 0.10	\$ 0.33
Employees	2/16/2004	2/16/2004 2/15/2014	76,454,880	\$ 0.25	18,742,440	18,742,440						\$ 0.33
					55,262,975	52,685,875		2,577,100				

2004 STOCK OPTION PLAN

Name/Eligible Employees	Date Granted	Period during which Rights Exercisable	No. of Options Granted	Exercise Price Per Share (USD)	Options Outstanding as of 12/31/13	Additional Options Granted During Period	Options Lapsed During Period	Options Lapsed Due to Repurchase of Ordinary Shares During Period*	Options Exercised During Period	Options Cancelled During Period	Options Outstanding as of 6/30/14	Average Price immediately before Date of Exercise (USD)
Employees	3/18/2004	3/18/2004 3/17/2014	49,869,700	\$ 0.35	13,943,900		13,943,900					
Employees	4/25/2004	4/25/2004 4/24/2014	22,591,800	\$ 0.28	4,417,400		4,417,400					
Employees	7/27/2004	7/27/2004 7/26/2014	35,983,000	\$ 0.20	10,062,000		95,000					9,967,000
Employees	11/10/2004	11/10/2004 11/09/2014	52,036,140	\$ 0.22	10,380,160		81,000					10,299,160
Employees	5/11/2005	5/11/2005 5/10/2015	94,581,300	\$ 0.20	23,492,836		826,670					22,666,166
Employees	8/11/2005	8/11/2005 8/10/2015	32,279,500	\$ 0.22	5,316,500		72,000					5,244,500
Employees	11/11/2005	11/11/2005 11/10/2015	149,642,000	\$ 0.15	21,336,000		3,182,000					18,154,000
Employees	2/20/2006	2/20/2006 2/19/2016	62,756,470	\$ 0.15	17,344,294		284,600					17,059,694
Employees	5/12/2006	5/12/2006 5/11/2016	22,216,090	\$ 0.15	2,567,000		24,000					2,543,000
Employees	9/29/2006	9/29/2006 9/28/2016	40,394,000	\$ 0.13	10,692,000		108,000					10,584,000
Lip-Bu Tan	9/29/2006	9/29/2006-9/28/2016	500,000	\$ 0.13	500,000							500,000
Others	11/10/2006	11/10/2006-11/09/2016	2,450,000	\$ 0.13	150,000							150,000
Employees	11/10/2006	11/10/2006-11/09/2016	33,271,000	\$ 0.11	6,535,000		98,000					6,437,000
Employees	5/16/2007	5/16/2007-5/15/2017	122,828,000	\$ 0.15	36,982,000		1,229,000					35,753,000
Others	5/16/2007	5/16/2007-5/15/2017	5,421,000	\$ 0.15	300,000							300,000
Employees	12/28/2007	12/28/2007-12/27/2017	89,839,000	\$ 0.10	21,556,800		280,000		58,000			21,218,800
Employees	2/12/2008	2/12/2008-2/11/2018	126,941,000	\$ 0.08	39,208,625		1,668,700		6,329,625			31,210,300
Others	2/12/2008	2/12/2008-2/11/2018	600,000	\$ 0.08	300,000							300,000
Employees	11/18/2008	11/18/2008-11/17/2018	117,224,090	\$ 0.02	24,203,320		124,000		8,231,490			15,847,830
Employees	2/17/2009	2/17/2009-2/16/2019	131,943,000	\$ 0.03	36,129,000		400,000		8,487,000			27,242,000
Lip-Bu Tan	2/17/2009	2/17/2009-2/16/2019	1,000,000	\$ 0.03	1,000,000							1,000,000
Others	2/17/2009	2/17/2009-2/16/2019	400,000	\$ 0.03	50,000							50,000
Employees	5/11/2009	5/11/2009-5/10/2019	24,102,002	\$ 0.04	5,330,000				525,000			4,805,000
Lip Bu Tan	2/23/2010	2/23/2010-2/22/2020	3,134,877	\$ 0.10	3,134,877							3,134,877
Senior Management	2/23/2010	2/23/2010-2/22/2020	49,498,364	\$ 0.10	15,674,388		15,674,388					
Employees	2/23/2010	2/23/2010-2/22/2020	337,089,466	\$ 0.10	145,594,760		4,890,407		3,557,659			137,146,694

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Yonggang Gao	5/24/2010	5/24/2010-5/23/2020	3,145,319	\$ 0.08	3,145,319			3,145,319
Shanzhi Chen	5/24/2010	5/24/2010-5/23/2020	3,145,319	\$ 0.08	3,145,319			3,145,319
Senior Management	5/24/2010	5/24/2010-5/23/2020	15,726,595	\$ 0.08	15,726,595			15,726,595
Employees	5/24/2010	5/24/2010-5/23/2020	18,251,614	\$ 0.08	6,606,700	3,387,700	9,000	3,210,000
Employees	9/8/2010	9/8/2010-9/7/2020	46,217,577	\$ 0.07	10,013,455	65,510	620,687	9,327,258
Employees	11/12/2010	11/12/2010-11/11/2020	39,724,569	\$ 0.08	27,901,006	711,374	3,052,787	24,136,845
Employees	5/31/2011	5/31/2011-5/30/2021	148,313,801	\$ 0.08	99,931,474	2,136,427	9,426,832	88,368,215
WEN YI								
ZHANG	9/8/2011	9/8/2011-9/7/2021	21,746,883	\$ 0.06	21,746,883			21,746,883

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Name/Eligible Employees	Date Granted	Period during which Rights Exercisable	No. of Options Granted	Exercise Price Per Share (USD)	Options Outstanding as of 12/31/13	Additional Options Granted During Period	Options Lapsed During Period	Options Lapsed Due to Repurchase of Ordinary Shares During Period*	Options Exercised During Period	Options Cancelled During Period	Options Outstanding as of 6/30/14	Average Price in effect when granted
Tzu Yin Chiu	9/8/2011	9/8/2011-9/7/2021	86,987,535	\$ 0.06	86,987,535						86,987,535	
Employees	9/8/2011	9/8/2011-9/7/2021	42,809,083	\$ 0.06	23,514,390		624,938		3,647,348		19,242,104	
Frank Meng	11/17/2011	11/17/2011-11/16/2021	4,471,244	\$ 0.05	4,471,244						4,471,244	
Employees	11/17/2011	11/17/2011-11/16/2021	16,143,147	\$ 0.05	11,238,286		92,136		557,505		10,588,645	
Employees	5/22/2012	5/22/2012-5/21/2022	252,572,706	\$ 0.04	202,078,054		2,142,748		19,284,779		180,650,527	
Senior Management	5/22/2012	5/22/2012-5/21/2022	5,480,000	\$ 0.04	5,480,000						5,480,000	
Employees	9/12/2012	9/12/2012-9/11/2022	12,071,250	\$ 0.04	8,454,116		250,333		728,041		7,475,742	
Senior Management	9/12/2012	9/12/2012-9/11/2022	3,500,000	\$ 0.04	3,500,000						3,500,000	
Employees	11/15/2012	11/15/2012-11/14/2022	18,461,000	\$ 0.05	15,634,333		326,792		1,990,956		13,316,585	
Employees	5/7/2013	5/7/2013-5/6/2023	24,367,201	\$ 0.08	20,501,263		338,000		716,875		19,446,388	
Employees	6/11/2013	6/11/2013-6/10/2023	102,810,000	\$ 0.08	99,490,000		2,824,376				96,665,624	
Senior Management	6/11/2013	6/11/2013-6/10/2023	74,755,756	\$ 0.08	74,755,756						74,755,756	
Yonggang Gao	6/17/2013	6/17/2013-6/16/2023	13,608,249	\$ 0.08	13,608,249						13,608,249	
Sean Maloney	6/17/2013	6/17/2013-6/16/2023	4,490,377	\$ 0.08	4,490,377						4,490,377	
LAU Lawrence												
Juen-Yee	9/6/2013	9/6/2013-9/5/2023	4,492,297	\$ 0.07	4,492,297						4,492,297	
WILLIAM TUDOR BROWN	9/6/2013	9/6/2013-9/5/2023	4,492,297	\$ 0.07	4,492,297						4,492,297	
Employees	9/6/2013	9/6/2013-9/5/2023	22,179,070	\$ 0.07	18,379,070		3,111,950				15,267,120	
Employees	11/4/2013	11/4/2013-11/3/2023	19,500,000	\$ 0.07	19,136,000		648,000				18,488,000	
					1,265,120,878		64,059,349		67,223,584		1,133,837,945	

2004 EQUITY INCENTIVE PLAN

Name/Eligible Employees	Date Granted	Period during which Rights Exercisable	No. of RSUs Granted	Exercise Price Per Share (USD)	RSUs Outstanding as of 12/31/13	Additional RSUs Granted During Period	RSUs Lapsed During Period	RSUs Lapsed Due to Repurchase of Ordinary Shares During Period*	RSUs Exercised During Period	RSUs Cancelled During Period	RSUs Outstanding as of 6/30/14	Average Price in effect when granted
Senior Management	2/23/2010	2/23/2010-2/22/2020	21,459,142	\$ 0.00	1,679,399				1,679,399			
Employees	2/23/2010	2/23/2010-2/22/2020	139,933,819									